

DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

**AGENDA ID 14166
RESOLUTION G-3496
August 27, 2015**

R E S O L U T I O N

Resolution G-3496: Southern California Gas Company (SoCalGas) notification and implementation of a natural gas curtailment event on February 6, 2014 as required by Decision (D.) 91-09-026

PROPOSED OUTCOME:

- This Resolution approves Advice Letter 4603, which notified the Commission of a curtailment on February 6, 2014 and finds that the curtailment was consistent with the procedures as described in SoCalGas' rules.

SAFETY CONSIDERATIONS:

- Curtailments in some situations can impact service to customers providing critical services. An orderly curtailment process understood by all customers is important to maintaining safety.
- It is the utility's responsibility to adhere to all Commission rules, decisions, General Orders, and statutes including Public Utility Code Section 451 to take all actions "... necessary to promote the safety, health, comfort, and convenience of its patrons, employees and the public."

ESTIMATED COST:

- Four customers incurred penalties due to noncompliance with the curtailment requirements.

By Advice Letter 4603 filed on February 6, 2014.

SUMMARY

This Resolution approves Advice Letter 4603 and affirms that the Curtailment implemented on February 6, 2014 was necessary and consistent with the procedures described in the Southern California Gas Company (SoCalGas) tariff rules. The

resolution also affirms the noncompliance penalties assessed by SoCalGas as required under SoCalGas Rule 23.

The curtailment began on February 6, 2014 and continued through February 10, 2014. The curtailment was implemented due to inadequate quantities of gas being delivered into the SoCalGas System. The curtailment impacted fifty three Standby Procurement Service (SPS) customers and resulted in penalties for four of these customers.

BACKGROUND

In compliance with Decision (D.) 91-09-026 SoCalGas filed Advice Letter (AL) 4603 on February 6, 2014 notifying the Commission and affected parties of a curtailment event in its service territory.¹ The curtailment, which began at 8:00 A.M. on February 6, 2014 applied to SoCalGas' SPS. Fifty-three Commercial and Industrial and Energy Markets customers were notified of the curtailment. Four customers incurred penalties related to under delivery of supply relative to burn and the balancing requirements under SPS.

SPS is a balancing service provided by SoCalGas to noncore customers.

The service provides that under-deliveries (customer transportation deliveries into the system that are less than the customer's usage) are 'balanced' by SoCalGas to bring customer usage to within allowed balancing tolerances. This balancing involves the provision of gas by SoCalGas on a temporary basis to cover under deliveries. (SoCalGas also provides a "Buyback" service under which they match customer usage with over-deliveries.) SoCalGas is able to do so through the use of its storage system. During winter months customers are required to deliver at least 50% of their five-day usage, on a rolling basis. This required delivery amount increases as SoCalGas' storage inventory declines over

¹ D. 91-09-026 requires that the SoCalGas submit an AL simultaneously with an announcement of a curtailment. The filing "shall state the facts underlying and the reasons for a curtailment, shall demonstrate that the type of curtailment being declared complies with SoCalGas' tariffs, and shall set forth the efforts SoCalGas has taken to minimize or alleviate the curtailment." D.91-09-026, September 9, 1991, p.32

the course of the winter.² Penalties are incurred if balancing requirements are not met.

SoCalGas Rule No. 23, Continuity of Service and Interruption of Delivery, governs the conduct of curtailments. Under this rule, SPS is the first service to be impacted in a curtailment.

Rule No. 23 states that, “When in the judgment of the Utility, operating conditions require curtailment of service and/or the diversion of customer-owned gas, such curtailment shall be effectuated in the order and manner described below....” The order for curtailment as described lists “All Standby Procurement service” as the first service to be curtailed. Rule 23 also defines the penalties on volumes that are in violation of balancing requirements during a curtailment. As indicated in SoCalGas Rule 23, by curtailing SPS, SoCalGas was in effect requiring that customer daily deliveries be at a minimum of 90% of their usage.

AL 4603 notes that the curtailment was necessary due to inadequate quantities of gas being delivered into the SoCalGas system. The curtailment was terminated at 11:59 P.M. on February 10, 2014.

NOTICE

Notice of AL 4603 was made by publication in the Commission’s Daily Calendar. SoCalGas sent a copy of the Advice Letter to the General Order 96-B parties listed on Attachment A to the Advice Letter.

PROTESTS

SoCalGas’ Advice Letter AL 4603 was timely protested by the City of Vernon (Vernon). The protest, filed on February 24, 2014 , concerns what Vernon describes as (1) the short notice of the curtailment, (2) inconsistencies in the interpretation of SoCalGas Rule 23, and (3) excessively punitive penalties imposed for failure to deliver 90% of load during periods of the curtailment.

The protest requests that penalties be waived for this curtailment and for an earlier curtailment of SPS in December of 2013.³ In addition, Vernon makes

² A description of the SPS is provided in SoCalGas Schedule No. G-IMB, Transportation Imbalance Service.

several recommendations for the management of future curtailments. Vernon further asserts that there are problems with Rule 23 and that SoCalGas has acknowledged these problems.

Vernon comments that the notice of the curtailment occurred at 7:58 A.M. on February 6, 2014, just two minutes before it went into effect at 8:00 A.M. The protest states that “it was unreasonable for customers to reduce usage during the first hour of the curtailment, and for the first few hours.”⁴ Vernon continues that it took immediate action to lower demand but that this effort took through most of Friday, the 7th of February, 2014. Regarding the “short notice” Vernon concludes that “It is not reasonable to declare a curtailment without notice sufficient to allow large industrial transporters to respond.”⁵ Based on what Vernon characterizes as “unreasonably short notice”, Vernon requests that penalties be waived.

The Vernon protest also contends that SoCalGas interprets Rule 23 inconsistently or inappropriately and posits examples of what it argues demonstrate these inconsistencies. Each of these examples is focused on the argument that since Rule 23 does not specify how shortages are to be made up, SoCalGas has independently developed its system for how it enforces Rule 23, and does so in a way that makes it difficult for customers to comply with the curtailment. Vernon notes that the system SoCalGas has adopted has one make up period for the first eight hours of a curtailment and a second period for everything after eight hours.

³ SoCalGas curtailed SPS for a period of five days beginning on December 7, 2013. Notice of the curtailment was provided to the Commission on December 6, 2013 via Advice Letter 4576. Vernon states that it did not protest the December curtailment because it was not aware that penalties would be imposed until after the 20 day protest period had passed. Vernon filed a formal complaint to the curtailment, Case 14-05-016 on May 16, 2014. The complaint seeks the waiver of penalties Vernon incurred during the curtailment. Vernon subsequently withdrew its complaint, and the case was dismissed in D.14-07-036.

⁴ City of Vernon Protest to Southern California Gas Company Advice No. 4603, February 24, 2014, p. 3.

⁵ Ibid., p. 3.

Vernon contends that shortfalls across the entire curtailment should be treated the same.

The protest also asserts that, relative to Pacific Gas and Electric Company (PG&E) the SoCalGas penalties are excessive. The protest compares the maximum SoCalGas penalty of \$100 per MMBtu to PG&E's maximum penalty of \$25 under PG&E's Rule 14.⁶

The protest provides multiple comments and recommendations reflective of its concerns with current procedures regarding curtailments of SPS. These include the level of penalties imposed and how they are determined, the noticing of a curtailment, the method used to calculate balancing and changes to the SoCalGas Rule 30.

Finally, Vernon references SoCalGas' statements made in reply to a protest by Chevron USA Inc. (Chevron) of SoCalGas AL 4576 which provided notification of the December 7, 2013 curtailment. Vernon states that SoCalGas "acknowledged problems with Rule 23" and as such, penalties to shippers making good faith efforts to comply should be waived until such problems are addressed.

SoCalGas replied to Vernon's protest on March 5, 2014.

Addressing the issue of short notice SoCalGas asserts that "There is no advance notice requirement for curtailments; and SPS is the first service we curtail."⁷ Further, the reply states that Vernon and others were provided with warnings of potential operational challenges on February 4 and again on February 5.

SoCalGas notes that in the afternoon of February 5, notices were issued "explaining that SoCalGas and SDG&E were experiencing low gas deliveries due

⁶ PG&E Rule 14 includes penalties associated with operational and emergency flow orders.

⁷ Reply to Protest of SoCalGas Advice No. (AL) 4603 – Curtailment of Standby Procurement Service on February 6, 2014. March 5, 2014. pp. 2-3.

to higher upstream gas prices, and that this situation may affect our ability to meet the requirements of customers and contracted marketers.”⁸ The reply goes on to say that “Given these warnings by SoCalGas, and given the well-publicized upstream price and gas supply issues that were occurring at this time, it is not plausible for Vernon to assert that it was surprised when SoCalGas curtailed SPS on the morning of February 6.”⁹

In reply to Vernon’s assertion of inconsistent application of Rule 23, SoCalGas notes that it applies the rule as required and, in the case of the February 6, 2014 curtailment (and the December 7, 2013 curtailment) in a manner that is most favorable to shippers.

SoCalGas comments that the differing treatment of the first eight hours of a curtailment and the remainder of the curtailment described by Vernon as an inconsistency is a requirement of Rule 23. The reply asserts that “Absent the overlay of an hourly curtailment penalty structure...SoCalGas would need to assess SPS curtailment charges for negative daily imbalances for each day of a curtailment event in order to ensure uniform flows. Many customers would view this as less customer-friendly than the current requirement.”¹⁰

SoCalGas provides two responses to Vernon’s assertion that penalties are excessive. First, the penalty structure was established by a Commission Decision. Second, SoCalGas argues that Vernon is not making the appropriate comparison when it references PG&E’s penalty structure.

SoCalGas comments that the process by which the penalties were set involved the opportunity for input from interested parties and resulted in a Commission Decision. Changing the penalty structure based solely on Vernon’s objection would be inappropriate. SoCalGas asserts further that, in circumstances when the system is under stress, substantial penalties are needed to incent customers to bring in sufficient supply.

⁸ Ibid., p.3.

⁹ Ibid., p. 3.

¹⁰ Ibid., p.4.

SoCalGas also argues that Vernon's comparison of the SoCalGas maximum penalty of \$100 to PG&E's maximum of \$25 under an Operational Flow Order is not the relevant comparison. The reply states that

"Our February 6 SPS curtailment most resembles PG&E's Emergency Flow Orders (EFO) described in PG&E Rule 14 section F because it was implemented under an emergency operating condition. Under the EFO process, PG&E requires a *0% daily tolerance* and a noncompliance charge of \$50 plus the PG&E Daily Citygate Index Price rounded up to the next whole dollar. In comparison, SPS curtailment charges are \$100/ MMBTU only for the last curtailment period aggregated over multiple days, with a *10% tolerance for the entire curtailment period.*"¹¹

SoCalGas disagrees with Vernon's request that the Commission waive penalties associated with the February 6, 2014 curtailment until curtailment rules are updated. SoCalGas asserts that, "Without penalties, a curtailment of SPS would essentially be a meaningless act, and curtailments of higher-priority services and higher-priority customers would be the likely result."¹² SoCalGas repeats the position taken concerning the December 6, 2013 curtailment that SoCalGas is sympathetic to a one time waiver for penalties incurred for what was its first curtailment of SPS. However it notes that customers should have become familiar with the rules and policies based on this first experience and therefore better able to manage the second curtailment. Finally on this issue SoCalGas states that "it would not be fair on a going-forward basis to relieve some customers of SPS curtailment penalties while other customers go to the trouble and expense to bring themselves into balance."¹³

SoCalGas takes note of Vernon's recommendations concerning curtailments and states that the advice letter process is not the appropriate forum to

¹¹ Ibid., p. 4. It should be noted that the SoCalGas reference that the \$100 penalty only applies to the "the last procurement period" means that it applies to everything but the first eight hours.

¹² Ibid., p. 4.

¹³ Ibid., p. 5.

consider these changes. SoCalGas repeats that the rules governing curtailments were determined after interested parties had an opportunity to be heard. Any changes to the rules should likewise be subject to scrutiny by interested parties and SoCalGas has initiated a process to develop proposals and present them to customers.

DISCUSSION

This Resolution affirms the necessity of the SoCalGas February 6, 2014 curtailment of Standby Procurement Service. Below average temperatures across the United States immediately before and through the end of the curtailment resulted in high demand for natural gas particularly in the Mid-Continent and Mid-West.

The situation was aggravated by lower natural gas production, possibly caused partly by well freeze offs. As demand increased and supply declined, gas traded at higher prices in higher demand areas and deliveries into the SoCalGas system declined.¹⁴ SoCalGas responded in part by heavy use of its storage capabilities. As the limits of storage capability were approached, SoCalGas appropriately implemented a curtailment.

AL 4603 did not provide the necessary information to fully comply with the requirements of D.91-09-026. SoCalGas shall file a supplemental AL, AL 4603-A, incorporating the items required.

Ordering Paragraph 1 of D.91-09-026 requires that the AL notifying the Commission of a curtailment “shall state the facts underlying and the reasons for the curtailment, shall demonstrate that the type of curtailment being declared complies with SoCalGas’ tariffs, and shall set forth the efforts SoCalGas has taken to minimize or alleviate the curtailment.” As with AL 4576 filed for the December 6, 2013 curtailment, AL 4603 again fails to provide the information clearly defined as required in D.91-09-026. SoCalGas shall file a supplemental

¹⁴ The information describing conditions at the time were included in response to an Energy Division data request concerning AL 4604. As noted in the following paragraph, AL 4603 failed to provide the information required to be included in Advice Letters reporting curtailments.

AL, AL 4603-A, incorporating the items required. Additionally SoCalGas shall include in AL 4603-A an explanation for the deficiency in AL 4603.

SoCalGas followed the established procedures for the curtailment.

SoCalGas accurately notes in its reply to the Vernon protest that there is no advance notice requirement. The reply also notes that SoCalGas provided notice as early as February 4 that they were experiencing low deliveries into the system and that this “may effect our ability to meet the requirements of customers....”¹⁵ Coming on the heels of very similar circumstances that led to the December 7, 2013 curtailment and armed with notice concerning a tightening supply situation, customers, including Vernon, could have reasonably anticipated a curtailment event. The earliest informational notice concerning the worsening supply conditions was made even earlier than the notice requirement that Vernon is proposing be adopted for future use.

Concerning Vernon’s other areas of contention, SoCalGas followed appropriate procedures. Differences in how the first eight hours of a curtailment are treated relative to the remainder of a curtailment are a function of Rule 23 and not applied at the discretion of SoCalGas. Similarly, the penalties imposed under the February 6 curtailment were established by a Commission Decision and as such are required of SoCalGas. It is also worth noting that only four customers incurred penalties and that the penalties were, with one possible exception, small. In fact, Vernon did not incur noncompliance penalties. It appears that the SoCalGas execution of the curtailment was done with sufficient notice and process such that almost all customers, including Vernon, were able to respond without incurring significant, if any, penalties.

As noted in Resolution G-3493, the Commission agrees with both Vernon and SoCalGas that Rule 23 and the general approach to curtailments and balancing requirements merits review. On that matter, it is noted that SoCalGas has filed Application 14-06-021 and Commission Decision 15-06-004 approved the application’s proposal to replace certain current practices with a low operational

¹⁵ Op. Cit. Reply to Protest. p. 3.

flow order procedure.¹⁶ Additionally SoCalGas and San Diego Gas and Electric filed, on June 26, 2015, Application 15-06-026 to revise their curtailment proceedings.

The Commission will not waive penalties incurred during the February 6, 2014 curtailment. Rule 23 clearly defines the circumstances under which penalties will be applied and the amount of the penalties. Almost all impacted customers undertook the steps necessary to avoid penalties. In addition, curtailment of SPS service does not mean that customers must immediately cease using gas – it only means that customers must get their consumption more closely matched to the amount of supply they are bringing into the system. There is no basis on which to excuse penalties for those companies who were unable to meet the supply requirements in order to avoid penalties.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission.

The 30-day comment period for the draft of this resolution was neither waived or reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today.

FINDINGS

1. On February 6, 2014, Southern California Gas Company (SoCalGas) filed Advice Letter (AL) 4603 notifying the commission that it would be curtailing interruptible Standby Procurement Service (SPS) beginning at 8:00 A.M. on February 6, 2014.
2. The curtailment was required in response to very low deliveries into the SoCalGas system relative to demand by customers.

¹⁶ The Commission also notes, however, that the need for review of Rule 23 should not be used as a pretense for waiving penalties as requested.

3. Curtailment of interruptible SPS is governed by SoCalGas Rule 23. Under Rule 23 interruptible SPS is the first service category to be curtailed. The rule also defines the circumstances for and amounts of any penalties.
4. The curtailment impacted 53 interruptible customers. Of these 53 customers, 4 incurred penalties.
5. AL 4603 was protested By the City of Vernon (Vernon). Vernon is an interruptible SPS customer included in the curtailment. Vernon did not incur any penalties.
6. The Vernon protest asserts that (a) SoCalGas did not provide sufficient notice of the curtailment; (b) did not appropriately administer the curtailment; and (c) that changes should be made to the SoCalGas Rule 23.
7. SoCalGas followed appropriate procedures in the execution of the curtailment.
8. There is no notice requirement in Rule 23. However, SoCalGas provided information up to two days before the curtailment notifying customers of developing problems concerning declining receipts and the possibility that customer needs may not be met.
9. SoCalGas appropriately administered Gas Rule 23 and its provisions, including the level of penalties it imposed.
10. SoCalGas has filed an application to implement a low operational flow order process and the Commission has approved the application in Decision 15-06-004. The approved process essentially replaces the existing balancing procedures.
11. Penalties were assessed in accordance with Rule 23. There is no basis to waive penalties for those companies who did not meet the supply requirements as defined in the rule.
12. SoCalGas did not fully comply in AL 4603 with reporting requirements stated in Commission Decision 91-09-026.
13. SoCalGas should file a supplemental AL providing the information required but missing in AL 4603
14. Pending the filing of a supplement, Advice Letter 4603-A, AL 4603 should be approved.

THEREFORE IT IS ORDERED THAT:

1. Southern California Gas Company Advice Letter 4603 is approved pending the filing of a supplemental Advice Letter.
2. Southern California Gas Company shall, within 30 days, file a supplemental Advice Letter 4603-A. The supplemental advice letter shall (a) as required by Commission Decision 91-09-026, state the facts underlying and the reasons for the curtailment, shall demonstrate that the type of curtailment being declared complies with SoCalGas' tariffs, and shall set forth the efforts SoCalGas has taken to minimize or alleviate the curtailment; and, (b) include in AL 4603-A an explanation for the deficiency in AL 4603.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on August 27, 2015; the following Commissioners voting favorably thereon:

Timothy J. Sullivan
Executive Director